The Neglected Issue

Some Essays on The Need for Monetary Reform

By

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Price FOURPENCE

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PREFACE

Have you ever heard the expression, "barking up the wrong tree" and do you know what it means? It appears to be of American origin and was originally associated with the chase of the raccoon. The raccoon is a nocturnal animal which, when pursued by dogs, takes refuge in a tree. A well-trained 'coon-dog, by barking at the foot of the right tree, attracts the attention of his master, who is able to shoot the quarry by moonlight. A badly-trained or foolish dog, on the other hand, may lead his master a wild-goose chase by barking at the foot of a tree where there is no raccoon or where some other kind of animal has taken refuge: thus, that they are "barking up the wrong tree," has come to be said of people who announce loudly that they have discovered, in what is, in point of fact, the wrong place, the cause of some social evil or the seat of some grievance.

Now if we leave out of account human selfishness, weakness and stupidity for which true religion is the only adequate cure, no single factor in any way approaches the defective monetary and foreign trade system in importance as a cause of mental and physical suffering, social injustice and war. Comparatively few people, however, realise this. Most of them, if they are reformers, are busily engaged in barking up what are largely wrong trees, at "capitalism"; or "profit"; or "private ownership." Meanwhile the financier-raccoon, who keeps the whole civilised world in a seething mess by restricting the supply of money in the interests of moneylenders, grins as he sits safely in a different tree and from time to time puts over some sly bit of propaganda which keeps the misdirected barking at fever pitch and effectively prevents the dogs or their friends from looking anywhere in **his** direction!

BEDFORD.

THE NEGLECTED ISSUE

DEFECTS IN THE MONETARY SYSTEM AS SPECIALLY OBSERVABLE UNDER PEACE-TIME CONDITIONS

The existing monetary system, in conjunction with certain obsolete theories and practices relating to financial matters, is a cause of more unnecessary human suffering and friction between nations than any other single factor.

Insufficient purchasing power is distributed by industry to buy, at a price fair to producers, the total output. There is a need for the creation, not in the form of interest-bearing debt, and issue direct to consumers, of supplementary purchasing power to make good the deficiency, but such issues of new money the present system does not permit. Orthodox economists and financiers, whose advice statesmen are only too prone to take, seem convinced that money can only have real value if it is created and issued according to present-day methods, i.e., as interest-bearing debt. Money, however, derives its value from two things only: from its long-established customary use as a medium of exchange and as a claim on goods and services. Persons to whom money-payments are made neither know nor care how the money they receive first came into being, and whether it was created as interest-bearing debt or not. If the objection be made that money not issued in the form of a loan might eventually pile up and cause inflation, the answer is that any surplus amount could be collected by taxation and destroyed with the utmost ease, whenever the necessity arose.

Industry working in a normal manner cannot distribute sufficient purchasing power to buy its total output for the following reasons.

1. Investment. The investment of the wages,

salaries, interest or profits distributed by industry, automatically causes a shortage of consumer purchasing power, which is quite independent of any shortage caused by mere saving. It "short circuits" consumer purchasing power and creates in prices two charges against consumers, only one of which, without the creation of new money, can possibly be met. As an example, we may imagine an industry engaged in making boots which, by the sale of what we may term cycle-of-boot-production-No. 1, succeeds, in addition to all the other costs of the industry and a charge for profits, in recovering the sum of £100, which it pays to its employees as part of their salaries. It is obvious, if the boot industry is to retain the same degree of prosperity, that, when the next lot of boots or, as we may term it, cycle-of-boot-production-No. 2, comes on the market, the sum of £100, together with the equivalent of all the other costs of the industry and a charge for profits, must again be in the pockets of the would-be buyers of boots. If, for the sake of argument, we imagine the persons employed by the boot industry using the £100 they received as part of their salaries, for the purpose of buying boots, then, other things being equal, cycle-of-boot-production-No. 2 may be sold as satisfactorily as cycle No. 1.

If, however, instead of spending their £100 on boots, the employees of the boot industry decide to invest it in the erection of a new factory for making furniture, a difficulty will ultimately arise. For simplicity's sake, seeing that it makes no difference to the ultimate truth of the argument, we will assume something that is not likely to happen in real life, namely that the total cost of the factory is only £100 and all the costs of its erection are wage-costs. As soon as the factory is finished, according to the normal and perfectly legitimate practice of industry, in the price of the furniture there will have to be included a charge for depreciation to rebuild the factory when it wears out.

The men who received the £100 of invested money as purchasing power for consumable goods are, as we have seen, the men who are employed to build the factory; they may do one of two things with their money, BUT THEY CANNOT POSSIBLY DO BOTH. Either they may spend the £100 on buying boots, in which case cycle-of-boot-production-No. 2 may be all right, but there will be no money to equate the depreciation charge in the price of furniture; or they may save their money for a little and then spend it on furniture, in which case the furniture industry may be all right, but there will be no money available to equate the salaries-charge in cycle-

of-boot-production-No. 2. Orthodox economists display an extraordinary degree of mental obtuseness in appreciating this not very difficult point; either they imagine that because the invested money is SPENT by the builders of the factory, no shortage of consumer purchasing power can result, entirely failing to realise the existence of a second charge which has not been met; or they remark airily that money to equate the second charge will be available from "somewhere else," entirely failing to see that, without the creation of new money, it can only be taken from "somewhere else" at the cost of creating a shortage at the point from which it was taken, thus merely shifting the problem without solving it. Some again may object that the recovery of money for a depreciation charge is spread out over a long period, entirely failing to see that £100 is still £100, whether it has to be recovered within six days or six years. Others, finally, may point out that in real life persons employed in one industry do not buy only the output of their own industry or only the output of some other industry, again failing to see that if a broad view of industry as a whole be taken, it makes not the slightest difference whether the persons in each industry buy only its own output, or whether they buy varying fractions of the output of different industries.

2. Increasing mechanisation is a feature of modern industry. As long as mechanisation is INCREASING, it means that the sum paid out of depreciation funds for renewals can never, during any given period, be equal to the larger sum which is being collected from consumers, through prices, and put into depreciation funds to provide for the replacement of larger and larger amounts of industrial plant. Only when mechanisation is not increasing will the money paid out of depreciation funds for renewals balance the amount being collected and put in, so that, over a given period, no shortage of consumer purchasing power results and no need arises for the creation and issue, direct to consumers, of new money not in the form of debt. Even if the money in depreciation funds be invested, it merely adds to the investment problem already described, except in the rare cases where the vendors of investments to holders of depreciation funds do not re-invest the money they receive but spend it on consumable goods.

3. Interest. The banking system, by its loans, is continually creating money for the principal of those loans, but it creates no adequate fund out of which interest is to come. It is constantly, as it were, creating and lending £100 and asking back £104. The only means

whereby this interest can be collected is by the borrower of earlier loans robbing the fund created by the principal of later loans. This plan may be successfully carried on as long as the rate of flow of bank loans does not diminish, but as soon as banks start to deflate, i.e., to destroy more money by the repayment of the principal of old loans than they create by the granting of new ones, then the repayment of the principal and interest of loans becomes a mathematical impossibility and many innocent people are made bankrupt and have their securities confiscated.

The existing monetary system not only makes it impossible for industry to dispose of the whole of its existing output at remunerative prices, but also fails entirely to provide the financial help needed to mobilise the resources of the industry to the full.

The first purpose and duty of money, under a sane system, should be to enable the people of a country to buy all that they desire of what their industries and commerce, working to full capacity, can produce and import. Clearly, therefore, the supply of money should be related as closely as possible to the nation's output and import of real wealth. Instead of that, it is related to irrelevant and inadequate things, such as the amount of gold in the Bank of England; the amount of paper money, fixed by the Bank Act of 1870, without regard either to the country's output of real wealth or its needs for paper as distinct from other kinds of money: and finally, to the Bank of England holdings of Government Securities. It is true that of recent years some attempt has been made, by the manipulation of the Exchange Equalisation Fund, to maintain the stability of the general price level.

It may be remarked in passing that under a sound monetary system, creations of "cheque" money would not depend, as at present, on the cash reserves of the banks, i.e., on coin and notes and claims on the Bank of England. Cash reserves do not usually permit the creation of enough "cheque" money, although if the supply of paper money were increased sufficiently to provide adequate incomes for all persons at present too poor to have banking accounts, it is conceivable that it might permit the creation of too much "cheque" money.

The existing system of maintaining the unemployed is excessively inadequate and quite needlessly burdensome to the rest of the community. Under any system, the unemployed must obviously be a charge on the labour of the employed, but there is not the slightest reason why they should be a charge on their incomes as well. If

an enlightened policy were adopted, the State, through the mechanism of a wise and adequate policy of money-issue, would, in effect, say to producers—"If you will produce and, under a Free Trade régime, import all that you can of what you need and of what the deserving unemployed need also, we will see that to you and to them enough money is issued to equate the cost of total production." Under the present system, however, there is issued, mainly to producers, insufficient money to enable them to buy all that even they desire to buy of their maximum possible production. From this insufficient total, a percentage is then abstracted by taxation and given to the unemployed, in order that the latter may hand it back to producers in return for a meagre allowance of goods. The result is that both sides are compelled to go short to a quite unnecessary degree.

It is very important that statesmen should realise that the true purpose of industry and commerce is to produce goods and services, not with as much toil as possible, but with as little, in order that men may be free for the pursuits of creative leisure. It is folly to deny the people incomes even when goods are available for them to purchase, simply because they cannot get work; and equally it is folly to keep wealth, in the shape of imports, out of a country by tariffs and quotas, simply because it may deprive people at home of employment. The favourable trade balance, whereby a nation desires to send away a greater value of wealth than it receives back in exchange, should find a place as a desirable goal to aim at, only in the economics of Bedlam.

Under an enlightened system, the State would allocate direct to its own use that percentage of the annual creation of money which it was in the public interest that it should spend, using taxation only as need arose to collect, for destruction, surplus money for the prevention of inflation.

At present, however, the State obtains its revenue by taxation, direct and indirect, and by borrowing sums of newly-created money from the banking system, at interest falling on the taxpayer. Even if the total amount of money issued to the nation were adequate, which it is not, taxation for revenue purposes would be a foolishly cumbrous device, for the State would be allowing that percentage of the country's money which it needed to claim to be issued first to the citizens of the country, only that later it might be snatched back again by the elaborate mechanism of taxation.

The Balanced Budget which, during periods when no special degree of re-armament is being carried on, is

regarded as the goal of "sound" financial policy, is, in reality, neither sound nor sane; it simply means that the State is confining its expenditure on the Public Services to that comparatively meagre amount which it has succeeded in extracting from taxpayers, to whom insufficient money has been issued at the start. The result is that taxpayers are unduly burdened, while the State fails to render the country at large that amount of service which the nation's resources, actual and potential, should enable it to render.

Borrowing sums of newly-created money from the banking system, at interest falling on the taxpayer, is also a foolish method of obtaining revenue. As already pointed out, no adequate fund is created out of which the interest is to come, and the burden of debt-charges is becoming more and more intolerable. It has been estimated that if all the money collected by means of income-tax were set against interest and debt charges, about four and ninepence out of every five shillings would have to be utilised in this manner. Local taxpayers are equally burdened, an enormously high percentage of the rates being allocated to the payment of debt-charges.

FOREIGN TRADE—DEFECTIVE METHODS AND REMEDIES

Foreign trade, conducted in an enlightened manner, should plainly consist of exchange between nations of goods or services surplus to the requirements of their own citizens and approximately equal.

Certain existing practices in connection with foreign trade are, however, open to the gravest possible objection. A trade balance which, in point of fact, can never be settled fairly by a debtor country otherwise than by a payment of goods or services, is sometimes settled by a payment in gold. When the gold is sent away, the debtor country is supposed to destroy a quantity of its paper and "cheque" money as well, in order to keep the supply of these kinds of money in relation to the now reduced amount of gold left in its Central Bank. This general reduction in the money supply leads to poverty and unemployment of a wholly unnecessary and unjustifiable kind, for the fact that some yellow metal has been sent across the sea has not made the slightest difference either to the capacity of the debtor country's industries to produce real wealth in the form of desired goods and

services, or to the need of its citizens for such goods and services.

The situation which arises in regard to the creditor country receiving the gold payment is likewise wholly unsatisfactory and absurd. The creditor country is supposed, when the gold arrives, to increase its supply of paper and "cheque" money. If it already had enough of these moneys before the gold payment was made, the only effect of the increase would be to cause inflation. If there was not enough paper and "cheque" money before the gold came in, it is a serious reflection on the competence of the government of the country in regard to monetary policy, for if the resources of the country in the matter of real wealth, or the power to produce it, justified the existence of a greater amount of money, that increased supply should have been brought into being without waiting for gold to travel across the sea.

If the gold be "sterilised," that is to say, if it be merely received by the banks of the creditor country and deposited in their vaults without being used as a basis for further money creations, the net result, as far as ordinary citizens are concerned, is that they have worked hard to produce for export the goods which gave their country the favourable trade balance, but have received in exchange nothing whatever which is of material value to themselves, the gold lying "sterilised" in the banks being of no value to them.

As an alternative to the settlement of a trade balance with gold, the creditor country will sometimes allow a debtor country to borrow the amount of the trade balance at interest. This means that only sufficient goods have to be pushed by the debtor country past the creditor country's trade barriers, to sell in the creditor country for sufficient of the creditor country's money to collect the interest on the "loan." When this process of borrowing the amount of a trade balance has been continued for some time, the burden usually ends by becoming intolerable to the debtor country, which repudiates the whole thing. The people of the creditor country are then left in the position of having worked hard for a number of years to produce large quantities of goods for export to the debtor country, in return for which they have received only the very small quantity of goods which were sent over to obtain the interest-payments.

The favourable trade balance means that a country has sent away from its shores a greater value of wealth in goods than it has received back in exchange. This unsatisfactory transaction has come to be termed "favourable," partly because the interest-payments on the

loans involved are profitable to the financiers who make them; and partly because the existing faulty monetary system does not distribute sufficient purchasing power to permit the sale of the whole of the existing output of home industry or of an import trade bringing in goods which balance in value those of the export trade. If, however, new money be created by bank loans to finance branches of the export trade which send abroad goods in return for which no other goods come in (thus creating the "favourable" trade balance); when this additional amount of money is added to the insufficient amount of money distributed by the home industries and the import trade, the two together help to clear the home market of consumable goods better than, without monetary reform, would otherwise be possible. In a similar way, for reasons explained elsewhere, new money created for armament-making helps to bolster up the present faulty monetary system and relieve the money-starvation of the home market.

The following points are the summary of proposals for a fair and sensible method of conducting foreign trade.

1. Each nation should have its own national money.
2. Each nation should keep its internal general price level stable, using Price Index figures for this purpose. (Some attempt is already being made to do this).
3. The exchange values of national currencies, i.e., the exchange rates, should be immutably fixed by agreement between nations co-operating for trading purposes, regardless of gold. This could be easily done. For example, if Britain and U.S.A. were willing, for mutual convenience in trading, to come to an agreement of this kind, an investigation would be made as to the quantity of representative goods and services which £1 would buy in England. Similar enquiries would be made as to the number of dollars needed to purchase a similar quantity of goods and services in U.S.A., and this would show how many dollars should be regarded as going to the pound.
4. There should be no international money, i.e., no use of gold for foreign trade.
5. All international trade should be done on Bills of Exchange, negotiated, as at present, through the ordinary channels of the banks and rediscounted by them with the National Central Bank.
6. No private individual, nor private institution, should be allowed to buy, sell, or own foreign currencies, or gamble in them in a manner disturbing to trade.
7. All the foreign currencies acquired by a nation through the sale abroad of its goods or by way of interest

on its foreign loans, should be held for the nation by its National Central Bank, the individual citizens of that nation receiving their own national money at the fixed rate of exchange in lieu of those foreign currencies. For example, assuming that four dollars went to the pound, an English exporter selling his goods to Jones in Toronto for £1,000, would draw a bill on Jones for 4,000 dollars. He would discount it with his own bank, possibly Barclay's, and receive his £1,000, less the discount rate. Barclay's would rediscount the bill with the National Central Bank of England and would receive £1,000 less the rediscount rate, getting for its service the difference between the discount and rediscount rates. The 4,000 dollars which Jones would pay against that bill into the Canadian banking system would not belong to the English exporter, who would already have received his £1,000; nor to Barclay's who would have received theirs, but to the nation, through its Central Bank. England would have a short term credit blocked in Canada of 4,000 dollars, and Canada would have paid England by giving it that claim on its goods. It would not, however, be under obligation to see that England used the credit to buy Canadian goods, nor would it be fair or reasonable that Canada should be required to do anything more for England in the matter of payment. If, now, a Canadian exporter sold 4,000 dollars' worth of goods to Smith in London, he would draw a bill on Smith for £1,000, would discount it with his Canadian bank, and receive his 4,000 dollars. The Canadian Bank would rediscount it with the Central Bank of Canada, and receive its 4,000 dollars, and the Central Bank of Canada would own the £1,000 blocked, which Smith would pay into the English banking system. The Central Bank of Canada would now own a short term credit blocked in England of £1,000, and the Central Bank of England would own a short term credit blocked in Canada of 4,000 dollars. The two Central Banks could then cancel out their equal claims against one another.

As the language used in describing the above arrangement is somewhat technical, some further explanation may be desirable. A " discount " is a kind of fee charged (in this instance by a bank) for the performance of certain services. An English merchant may sell goods to the value of £100 to a person in Canada. In a way he is entitled to the full £100, but as he finds it convenient to employ the services of his bank in securing for him payment in English pounds instead of Canadian dollars (which latter would be of little use to him in England), he is content to receive only £96 and allow his bank to keep a " discount " fee of £4 for themselves. A " re-

discount " is merely a second charge made by some other organisation for a similar service in connection with the same transaction. If, as under the above scheme, the Bank of England also have some work to do to complete the arrangement, they may charge the English merchant's bank a " re-discount " fee of £2. This means that the English merchant's bank will have to give up half the £4 fee they received from the merchant, so that their net profit on the whole business will be £2, the other £2 going to the Bank of England.

A " short term blocked credit " means a sum of money available for a limited period for someone to draw on if he cares to do so and **only** available for the purpose stated and for no other—hence the use of the term " blocked."

8. There should be a Central Bankers' Clearing House, which would in no sense be an international bank, but merely a common meeting-place where the respective National Central Banks of the co-operating nations could meet one another to exchange the claims which they might hold to the goods of one nation for claims to the goods of others, and where they might cancel out their claims on one another.

Under an enlightened system of this kind, the object of each nation would be to keep its imports, visible and invisible, more or less balanced, over a period of time, with its exports. (If a country carries the trade goods or tourists of another country in its ships, the services it thereby renders are a form of what are called " invisible exports.") International trade would become an exchange of goods and services between the nations to their mutual advantage, instead of a desperate struggle by each to lower its general price level, with a view to underselling others and getting them into a position of unpayable debt.

There would be no point in a country like Japan dropping her general price level, forcing down her standard of living, and using subsidies, because all she would achieve would be to make presents of her goods to the rest of the world. She would not even get the other nations into debt with her; she would merely have acquired claims on foreign goods which, through her own action in dropping her price level, she could not exercise. The Japanese importer could not afford to buy the more expensive goods of foreign countries because, if he brought them into Japan, he would be unlikely to be able to sell them at a profit to his money-starved fellow-countrymen. The credits, therefore, created by the Japanese exports would remain unused and useless until

Japanese workers grew tired of working long hours for low pay in order to make presents of their goods to the rest of the world, and forced their government to embark on a programme of social, economic and monetary reform.

AN INDEFENSIBLE BUDGET

The oppressive nature of the Budget, the unnecessary burdens which it imposes and the hardship and suffering which it inflicts are but the continuation, in an exaggerated form, of an indefensible financial policy which in peace-time allowed great poverty and over-taxation to exist in a world of potential plenty and which rendered impossible the removal of the economic causes of war.

In order to demonstrate the defects of the Budget, it will be desirable to state first, briefly and clearly, certain facts in regard to money and its creation.

First, let it be clearly realised that there is no physical limit to the amount of money which can be brought into being. The only limit which prudence should set is that which is determined by the country's maximum output and import of the thing which gives money value, i.e., real wealth in the form of desired goods and services—its MAXIMUM output and import, be it noted; not its present, or past, output and import, which, by reason of a faulty financial system, are, and have been, far below the maximum.

Inflation consists of a state of affairs where there is more money in circulation than can be backed adequately by desired goods and services. An increase in the supply of money, however, which IS backed by a corresponding increase in the output of desired goods and services does not constitute inflation nor produce the evil of inflation, which is a general rise in prices.

Money does not derive its value from the METHOD by which it is created or the PURPOSE for which it is first issued. No ordinary person either knows or cares HOW the money he handles was first created or issued. All that interests him is that it should be able to buy goods or services, or repay debt.

Most money under the existing system is first created and issued for one of two purposes— to enable banks to make loans; or to enable them to purchase for themselves Securities. Contrary to popular belief, banks, other than Savings Banks, do not make loans or purchase Securities

out of funds of money already in existence; they create new money for the purpose. Anyone who does not believe this statement can obtain confirmation of its truth from the article on Banking in the Encyclopaedia Britannica; from the MacMillan Commission Report; or from "Post-war Banking Policy," a book written by the late Rt. Hon. J. McKenna, Chairman of the Midland Bank.

One strong argument, and one strong argument only, can be advanced in favour of limiting the creation and issue of money to the two purposes above indicated: the practice gives the money-creating agent, the banking system, complete control over the amount of money issued and thereby power to prevent inflation. Just as new money is created whenever loans are made or securities purchased, so money is cancelled and destroyed and the total amount reduced whenever banks decide to call in loans for repayment or to sell Securities. (For confirmation of this, see again the authorities just alluded to).

Although the banking system has at its command only two means whereby it can recall, for cancellation and destruction, money which, if left in circulation, would become redundant and cause inflation, the Government possesses yet a third method of recalling, did it choose to do so for the same purpose, any amount of money that might be necessary. This method is TAXATION.

It follows, therefore, that neither in peace nor in war is there any reason why the Government should rely, FOR REVENUE, either on taxation or on borrowing from the banking system sums of newly-created money in a manner which involves fresh burdens of interest for the taxpayer and further additions to the National Debt.

The Government can, and should, direct the banking system to create the money needed for its services and it should use taxation only as a means of collecting, for destruction, surplus money for the prevention of inflation. Not only is direct taxation for revenue unnecessary, but so also is indirect taxation (Customs dues, etc.) which add enormously to the price of food and other articles bought by persons who may be too poor to pay ordinary taxes. Much local government expenditure could also profitably be financed not out of taxation but by grants of money created for the use of local government authorities by the banking system, by direction of the Central Government. Payments to the banks for accountancy services rendered in connection with the management of these funds would be made not by interest-charges but from percentages of the capital sums created.

Anti-inflation taxation possesses obvious and very

great advantages over the existing methods of obtaining Government revenue.

(1) The productive resources of the country, whether in peace or war, would be able to function to FULL CAPACITY.

(2) The amount of money levied by taxation could probably be far less than at the present time.

(3) Whether the amount levied by taxation were less or otherwise, the burden of the taxes would be infinitely lighter because it would fall on a nation far richer both in real wealth in goods and services and also in money-income.

(4) There would be no increase in National or Local Government debt.

Taxation in war-time, even under an enlightened financial system, would have to be somewhat heavier than peace-time taxation, by reason of the large sums of new money spent on armaments. Armaments are not real wealth, seeing that they are not sold to the citizens of the country and cannot back and give value to new money issued to finance their production. Theoretically, therefore, new money created to pay for armaments will be inflationary in character, as, incidentally, will new money created for the more desirable objects of financing public works, the reason in both cases being the same.

We may imagine a country which in peace-time places on the market £1,000 worth of real wealth in the form of desired goods and services and, for simplicity's sake in this our first example, we will also imagine something which never happens in real life (although orthodox economists think that it does), namely that industry also distributes, in the form of wages and profits, £1,000 which enable all the goods and services to be bought.

Our imaginary country now goes to war and creates £200 of new money to finance the production of armaments. We may also assume that the withdrawal of labour and materials from "real wealth" production to assist armaments production causes a drop in the normal output of "real wealth" goods and services to the value of £50, so that the total production is only £950 worth instead of £1,000 worth.

It is obvious, therefore, that if inflation is to be avoided, the sum of £250 will have to be collected by new taxation for cancellation and destruction, £200 of this money going to offset the creation of new money for the production of armaments and £50 going to offset the reduction in the output of ordinary goods and services, with consequent diminution in the amount of money

needed to buy the total at the same price as before.

We will now vary our ultra-simplified example to introduce factors which will present a picture more in line with reality.

Industry, even in war time, is not a static thing and unless financial obstacles prevent it, growth and expansion will continue although on a more modest scale, unless, of course, complete disaster overtakes the country.

New money created to finance armaments or public works may, in theory, be inflationary, as already stated, but certain important factors creating a need for more money put into consumers' pockets by methods which do not also increase the price of goods, may offset the inflationary character of the armaments etc. money, either wholly or in part, and reduce very considerably the percentage needed to be collected by taxation in order to prevent inflation. Investment is one of the chief of these factors, for whenever money from the profits or wages distributed by an existing industry is used to finance either an extension of that industry or the setting-up of an entirely new one, even though there be no saving or hoarding whatever, a need is automatically created for an additional issue of consumer purchasing power equal to the sum invested if the product of the extension of industry or of the new industry is to be sold, together with the product of all the business concerns operating before the additional output started to come on the market.

A further need for more money in consumers' pockets may be brought about by an increase of output from productive businesses which hitherto, for one reason or another, have not been functioning to the full capacity of their existing plant and labour resources. Finally, in war there may be additions to prices which are legitimate and not inflationary in character because they are due to increased costs. A.R.P. expenses incurred by firms, which the latter have to recover from their customers, create a corresponding need for an increase of consumer purchasing power in the customers' pockets.

Reverting, therefore, to our original example, we may postulate that, even though there be a drop in the real-wealth output of certain firms to the value of £50 owing to the diversion of labour and raw materials to the armament industries, there is likely, owing to investment, to be an extension of real wealth output in another part of the industrial system to the value, it may be, of £60; there may be a further extension of output, from businesses hitherto not working to full capacity, to the value of £30; and an unavoidable increase in the price of certain goods, due to A.R.P. costs, etc., of £30. As a result, the

amount of money which it will be necessary to collect by taxation in order to prevent inflation, will be, not £250, as in our first example, but only £130, i.e., £250 minus £120 (£60 + £30 + £30).

To do full justice to the iniquity of the Budget finance, we should need to postulate an output of goods far below the potential maximum, i.e., nearer £700 worth than £1,000 worth. If it raised half its armament expenditure by taxation, the Government would decrease the amount of money available for financing the production and consumption of ordinary goods to something like £600 if, as would be quite justifiable, we postulate as an addition to the £100 armaments tax, further taxation to the amount of another £100 for debt charges and other purposes. The unhappy country, therefore, instead of being left with £1,120 to buy its maximum output of goods and services after it has paid £130 in anti-inflation taxation, is left with only £600 to buy little more than half the maximum possible output of goods and services, after it has paid £200 in taxation.

Actually, under a sane economy, it might sometimes be better for the Government to create and issue more than the minimum supply of money mathematically necessary to finance the consumption of the maximum production of desired goods and services, even if, as a result, it had to make a corresponding increase in taxation in order to prevent inflation. It would be quite conceivable, for example, that persons employed by the armament firms might be receiving more money than they could conveniently spend on food and other articles (and which, in consequence, they were investing, perhaps, in War Bonds), at a time when people not employed by the armament firms had not even enough to eat; while farmers, from lack of their financial custom, were not producing all the food which it was possible for them to grow. Under these circumstances it might well be to the national advantage for the Government to create a further supply of new money and give, or pay, it to the needy would-be consumers just mentioned; and at the same time levy an increased tax of the same amount on the profits of the armaments firms.

Let us hope that no one will venture, as was not uncommon before the war, to express, from fear of inflation, horror at the idea of " trusting " the Government with the task of seeing that the nation's money-supply was related to its maximum output of real wealth or with the duty of directing the banking system to create such sums as were needed for National and Local Government expenditure. Has any political party ever shown the

slightest desire to risk inflation? Are they not all so scared of this bugbear that hitherto they have resisted obstinately every plea that the nation should be provided even with ENOUGH money? What possible inducement could there be, even to the most reckless politician or permanent official of the State, to commit a financial error which would inevitably devaluate his own income?

And talk about not trusting the Government! Heavens alive! If we trust them so much that we allow them to plunge us into war on an immediate issue which, in the opinion of many, was no concern at all of the British Empire; if we allow them to conscript us and take away most of our liberties for the better prosecution of the war; and if we permit them to take measures which, for the same end, may ruin our businesses or halve our incomes, surely we can trust them sufficiently to perform reasonably well a task which it is as much in their own interests to arrange shall be properly carried out, as it is in the interests of the country as a whole!

Anyone who feels that the financial system is wrong but at the same time cannot see that there is anything which, personally, he can do about it, should realise that he is not so powerless as he supposes. By a personal letter or a personal interview he should make his wishes known to his Member of Parliament, and directly ENOUGH people do this their demands will be obeyed, no matter how indolent or stupid individual Members of Parliament may be. In this truth, neglected and often disbelieved, is to be found, on a material plane, the one hope for the future.

THE EXTINCTION OF DEBT FINANCE

The extinction of the crushing burden of the National Debt is a task of primary importance, for without it economic recovery after the war will be impossible.

Under a sane monetary system, the State would earmark for its own use whatever percentage of an annual debt-free creation of money was needed for the adequate financing of its services. It would not borrow any money at all and it would use taxation only as a means of collecting for destruction surplus money for the prevention of inflation.

Under the present system, however, when the State needs more money than it can obtain by taxation, it proceeds to issue Government Bonds which are purchased either by banks or by private individuals and organisa-

tions, and in this way the National Debt is built up. The interest on these Government Bonds is obtained from taxation. Government Bonds are purchased by private individuals or ordinary organisations with money already in existence which has been saved, earned, inherited or otherwise normally acquired. Banks also sometimes purchase Government Securities out of their profits, like other business concerns. In many cases, however, banks and bankers' nominees make their purchase of Government Securities with new money created by a mere stroke of the pen,* the Government Bonds themselves providing the security where this is needed. Banks possess a right, within certain wide limits fixed by the amount of their cash reserves, of creating by, as has already been observed, a mere stroke of the pen, new money either for the purpose of making loans or for the purpose of buying Government Bonds and other Securities. A reference has just been made to bankers' nominees. These are people to whom banks have lent newly-created money for the purpose of enabling them to purchase Government Bonds. The Government Bonds stand in the name of the nominees, but the interest is divided between them and the banks which lent them the money.

Although the nation has for years been encouraged to believe that Government Bonds are a particularly safe and patriotic form of investment, in point of fact they are nothing of the kind, being in the last degree foolish and parasitic. As has already been pointed out, the State has no need to borrow money at all, either from banks or from private individuals. In so far, moreover, as holders of Government Bonds are also taxpayers, they are themselves providing out of taxation the interest which they are so pleased to receive! No wonder Government Bonds are a safe form of investment! They are just as safe and sure as the taxation which provides the interest on them! The position of the tax-paying investor in Government Securities may be compared to that of a person who needs at least £10 for his support during a given period. When we first see him, he may APPEAR to have £10 at his disposal, but, as we watch him carefully, we realise that in reality he has only £6, for a great Hand—that of the Government operating the Debt Finance system—keeps on shooting out and grabbing £4 of his money, handing him £4, and grabbing

*** Banks can create new money for buying Securities merely by filling-in blank cheques; while new money for lending can be created by the mere making of the entry which records in the bank's books the willingness of the bank to lend a certain sum and the liability of the borrower to repay it.**

another £4, so that he never gets any benefit from more than £6 of his income. The more money the Government borrows and the more Government Bonds issued for thoughtless investors to buy, the larger is the percentage of the national income taken out of effective use and circulation for the playing of the silly grab-give-back-and-grab-again game.

In so far as taxpayers are not also holders of Government Securities, one section of the community is being increasingly burdened with taxes to provide a tribute of interest to another section, sometimes by no means the poorest or the most deserving. This tribute is particularly unfair when banks and bankers' nominees are the recipients, for, as has already been pointed out, they did not, in order to acquire their holdings, have to part with any money they had saved or earned or acquired in a normal manner.

In order to remedy these evils, a law should be passed, prohibiting the sale of Government Securities to anyone but the State. No more Government Bonds should be issued and a compulsory return should be made of all holders of such Bonds.

Persons or organisations that have bought their holdings with money saved, earned or otherwise normally acquired should, as fast as could be arranged without risk of inflation, be paid off the full value of their holdings with new money created by direction of the State. This money they could either spend or re-invest usefully in productive industry.

Holdings purchased by banks out of profits might be treated in a similar way, but holdings purchased with new money created by a stroke of the pen, within the limits set by loans and cash reserves, should be treated very differently. In this latter case, the banks, having made no financial sacrifice to acquire their holdings, are not morally entitled to ordinary compensation. A law therefore should be passed compelling them to keep Treasury notes behind the WHOLE of their deposits, and in order to obtain these notes (which could be entered in their books as the security balancing the liability of the deposits created by the new money which purchased the Government Bonds), they would have to surrender Government Securities to the same value.

In regard to bankers' nominees, there would seem to be no argument against compelling them to surrender their Securities to the banks, which would, in turn, be required to surrender them to the State in return for the Treasury notes just mentioned.

In this way, within a comparatively short period, an

intolerable burden could be lifted from the country's shoulders and large sums of money released for the revival of industry and for the purpose of national development generally.

A rather interesting aspect of the "grab-give-back-and-grab-again" game is this. In so far as the sum received as dividends by a holder of Government Securities equals the sum deducted by the State from the taxes he pays for paying dividends on Government Securities, the money may be regarded as a sum permanently sterilised and kept out of effective circulation. The reason is that a citizen cannot spend the money that he has to keep in reserve for paying taxes; while equally the State cannot spend that part of its income from taxes which it has to set aside for paying dividends on Government Securities. The absurdity of the whole position is not noticed because it appears to the average citizen that he IS able to spend the money he receivs as dividends on Government Securities. If he does spend it, however, he only does so at the cost of sacrificing a corresponding portion of the rest of his income which he has to keep in reserve for paying taxes instead of being able to spend it. It is, in fact, a variation of the donkey and carrot business. In this case the donkey is allowed at intervals to pull up to, reach, and eat the carrot that has been dangling in front of his nose, but on any day that he does so, on returning home from work in the evening, he will find that there is one carrot less than his normal ration in his manger.

SOME FACTS AND FIGURES ABOUT ALBERTA
July 1942

The big British daily papers, being controlled or influenced by financiers, have often falsely declared that Social Credit (an enlightened scheme of monetary reform) was tried in Alberta and proved a failure. The truth is that the Central Government of Canada, at the instigation of the bankers, repeatedly prevented the Albertan Government from introducing Social Credit, the main features of which have never been allowed to be tried. Certain minor reforms along Social Credit lines have, however, been put into operation with striking success as the following data prove.*

Provincial Debt reduced by ten million dollars.

Alberta is the only Province where Provincial Debt has been reduced.

*** This success has been well maintained up to the time of writing (December 1943).**

Taxation reduced 43%. No new taxes were imposed in 1940-41.

Deficit of 1,878,031 dollars left from previous Government turned into 1940-41 surplus of 4,350,993 dollars.

5% Sales Tax removed in 1937, and 3% Bonus given to purchasers of Alberta-made goods and benzine.

This 3% Bonus raised to 5% in 1941, which means that to-day the people are buying goods 10% cheaper. Instead of higher wages they get their goods at lower prices.

Pay Rolls up 32%. Production up 16%.

Wholesale and Retail Sales (1934-39) increased 29%.

Finest roads in Canada built free of debt.

From May-September, 1940, 18,852 tons of sand were mined, producing 16,928 barrels of crude oil, 1,069 of gasoline and 3,479 of diesel and burner oil.

Oil development before present Government—1,263,750 barrels in 1933.

Oil development under Aberhart Government—8,494,500 barrels in 1940.

Alberta is now producing 98% of Canada's oil.

Coal production up 500,000 tons to a total of 6,700,000 tons.

Salt production up with 16,610 tons.

Lumbering rose in value to a total of 4,133,000 dollars.

92,000,000 lbs. of sugar-beet produced.

In 1940 Alberta harvested 181,000,000 bushels of wheat.

Old Age Pensions raised by 5 dollars a month.

UNEMPLOYMENT CAUSED BY MODERN INVENTIONS

Unemployment is an achievement; it means, or rather can and should mean, the freeing of men and women from long hours of toil for the interesting and worth-while occupations of creative leisure. Many foolish people persist, however, in thinking of unemployment as an evil which has got to be prevented or cured and they imagine that by shortening hours of work or inventing new ways of satisfying human needs and desires unemployment can be done away with.

The following striking figures clearly prove, however,

that the labour-destroying effect of modern inventions and discoveries must, under normal peace-time conditions, far outweigh any re-employment made possible by the rise of new industries or by the shortening of hours of work to the maximum reasonable degree. The moral of course is, not that labour-saving inventions should be scrapped or denied the chance of being put into operation, but that the right of every well-behaved citizen to an adequate money-income should be clearly recognised **whether there is paid work for him or her to do or not.** In other words it is the quantity of goods that really matters; not the amount of employment in making them, for, in the modern world, incomes should not be related solely to employment.

The following facts and figures tell their own tale.

One craftsman takes 5½ days to make one pair of boots. Modern plant in a boot-making factory can turn out 595,000 pairs of boots in 5½ days, the total number of employees sustained being 7,200.

In Rummelburg is a power plant capable of producing 240,000 kilowatts; 200 workmen and 50 clerks can keep it going. It displaces previous plant which gave employment to 3,000 workmen and 700 clerks to produce the same power.

Before the power age, 450 bricks per day per man was the average. To-day, a brick plant will produce 400,000 per man per day.

In Milwaukee, U.S.A., one power plant can turn out 10,000 chassis frames per day, and 34 miles of pipe line, employing only 208 persons.

A few years ago a plant turning out 600 cigarettes a minute was displaced by one which now turns out 2,600 a minute. Each machine employs three operators and disemployed 697 men.

A plant for making incandescent lamps was built in 6 weeks by 37 men a year or two ago. It enables one man to do in a single hour what would have taken him 9,000 hours in 1914.

73,000 electric light bulbs can be produced in 24 hours by a machine which by so doing disemploys 2,000 hand-workers.

The Boston Railroad Company uses a freight-car handling device which takes charge of 1,000,000 cars per year. One man directs the whole operation and saves the labour costs of 400 men.

The " New Leader " quotes: " A new multiple automatic drilling machine with 8 men is estimated to do the

work of 2,000 men each operating a single drilling machine.'' (January 6th, 1933).

A man-less plough has been tried in the U.S.A. After the first furrow, this machine guides and turns itself without a conductor. It is calculated that by modern machine methods a man can produce 1,300% more than by the methods of the past. Plough outfits working with a width of 60 feet are being used in place of the old two-horse single-furrow plough, the increased efficiency in ploughing being 5,900%, and, in spite of huge extensions in farming, disemployed 2½ million men from 1918 to 1927.

At the Stratford printing works of the L.N.E. Railway, 100,000 tickets can be cut and printed in one hour by a machine attended by one operator. Roughly 100,000,000 tickets weighing 120 tons, are printed yearly thereby.

3,600 socks per day can be produced by one man tending 25 machines.

The Wade Mechanical Woodman enables one operator to do the work of 30 men.

A machine can strip currants off a bush, disemploying 40 women, and does the work in less than half the time. These currants, when machines have made them into jam, are put into cans, 1,000 of which can be produced in a day by one man.

When a crane armed with an electric magnet is put to work, 128 men out of 130 lose their jobs.

At St. Louis, Australia, where sewerage work was being carried out, 33 machine operators, assisted by 37 labourers, were doing the work of 7,000 pick and shovel men.

Mr. Caulwell, a farmer of Weston, sprayed his potatoes against disease by aeroplane, with complete success. The field of 40 acres, which by ordinary methods took 2 days to disinfect, was sprayed in 25 minutes.

Until 1922, the U.S.A. fought the dreaded boll-weevil (a pest which used to destroy half the cotton crop of the world) with a mule-drawn drenching machine which did 30 acres a day. Aeroplanes now drench 300 acres in one hour.

SPITFIRE FUNDS, WAR WEAPONS WEEKS AND WAR SAVINGS

The war-finance device known as "Spitfire Funds" provides an excellent example of the ignorance and gulli-

bility of the British public in regard to questions of monetary policy.

How many of those patriotic people who collect for these funds realise that, no matter how successful they may be in their efforts, not a single EXTRA Spitfire will be turned out which would not have been turned out if no money had been raised by the Fund?

If the number of Spitfires turned out were REALLY allowed to depend on the size of the Fund and the success of the appeal, the Government would deserve to be imprisoned as Fifth Columnists, for it would mean that when Spitfires were needed for the adequate prosecution of the war, and when labour and materials were available for making more Spitfires, they were allowing a mere shortage of money-tokens to hinder the war effort and endanger the chances of victory!

In actual fact, of course, a government at war would never dream of allowing mere lack of money to hinder the production of necessary aircraft and, if it did not obtain it in other ways, it would direct the banks to create the money by a loan. It is only in peace-time that lack of money is allowed to hold up the production of much-needed goods or services for which ample labour and materials are available.

A Spitfire Fund is simply an anti-inflation tax, called by a more attractive name to induce people to pay it. Its purpose is to get the money needed to finance the production of Spitfires by a method which avoids the creation of new money by a bank loan.

It is, however, a cumbrous and premature anti-inflation device, seeing that anti-inflation measures should only be put into operation when the nation's resources for the production of war materials (assuming war to be right), and ordinary articles are fully mobilised. At the present time, owing to money-shortage and particularly to the money-starvation of would-be consumers, resources for the production of ordinary articles are NOT fully mobilised and the needs of the people are met far less adequately than they might be, even under those restrictions on real wealth output which are unavoidably imposed by war. Quite a number of poor persons, for example, are unable to buy even the full quota of goods which the rationing allows them and of which they stand in very great need.

In many cases banks subscribe largely to Spitfire Funds, Warships Weeks, etc., and the money they use for this purpose is not (except in the case of Savings Banks), money placed under their care by depositors; it is NEWLY-CREATED money. When this happens even

the anti-inflation aim is defeated.

War Savings are another form of anti-inflation taxation and the illustrated appeals to investors to protect their children from the Hun are sentimental bunk. An honest Government would simply point out that in war the production of ordinary goods, such as back and give value to money, is restricted; but that enormous sums of money, much of it new money, have to be paid out for the production of armaments. The difference between the amount of money which can be backed by ordinary goods and the amount which can not, must therefore be collected at regular intervals by anti-inflation taxation and destroyed.

THE PART PLAYED BY BIG FINANCE IN CAUSING THE WAR

The trouble first began when our financiers, still discouraging the reform of our monetary system and still insisting that the out-of-date maxim "No work, no income" should apply to the majority of our people, needlessly increased poverty in Britain by declining to renew bank loans to Germany and other debtor countries, including New Zealand, at a time when dividends from abroad were still coming in.

This statement of the position requires some explanation, under four headings.

(1) One of the worst defects of our present money system, the removal of which our financiers oppose, is that the supply of money is not regulated by the thing which money is needed to buy, i.e., the country's maximum output and import of desired goods and services. The supply of money is managed and restricted in the interests of money-lending.

(2) People put out of work through no fault of their own by the use of labour-saving inventions or by imported goods, have their incomes reduced because they are unemployed, and are very largely supported by taxing other citizens and in turn reducing their incomes. This is foolish, unnecessary and wrong for it is obvious that if persons unemployed through no fault of their own suffer a reduction of their income at a time when the total volume of goods on the home market has not declined, they will be unable to continue as good customers of the producing and importing industries and bad trade and further unemployment will result. This state of affairs could easily be prevented if money not derived

from taxation were created and given to the deserving unemployed to enable them to buy their fair share of the country's goods whether produced at home or imported from abroad.

(3) Bank loans made by British financiers to foreign countries or to the Dominions do not involve the sending of any British money abroad, for British money is of no use in foreign countries which have their own foreign money which we do not create. A bank loan to a foreign country is in fact a creation of new British money paid to British citizens who make goods for export to the foreign country to which the loan has been made. It is therefore goods, not money, which are sent abroad and the wages paid to our people who are employed in making these goods for export enable them to buy home-produced or imported goods on the British market.

(4) When British banks create new money to lend to a foreign country in the way just described, or when British citizens lend money already in existence for the same purpose, they will expect to receive dividends on their investments. The foreign country cannot pay these dividends in its own money for foreign money is of no use to British people; and it cannot pay dividends, direct, in British money which it does not possess the right to create. It is obliged therefore to export GOODS to Britain and if these goods can be sold here for British money, this money can be used to pay the British banks or private investors their dividends. It may, however, happen that if these foreign goods sent over for the purpose of obtaining money to pay dividends to our investors are of a kind which we ourselves produce, they may be the means of causing unemployment in the British industries producing them.

I would now refer the reader back to the sentence with which this article begins. In the light of the explanation just given it will, I hope, now be clear that if the goods coming in from abroad to collect money to pay dividends to our investors put some of our people out of work; if our financiers and politicians do not allow the money system to be reformed so that there is enough money to buy all the goods, imported and otherwise, on our home market; if they will not allow people put out of employment by imported goods enough money to buy their fair share of the goods which have put them out of work, and of other articles as well; and if our financiers stop creating, for foreign loans, money which provides pay and buying-power for our people employed in making goods for export; then a trade slump is certain to occur. There will be goods coming in but not enough money to

buy them and the import of these goods may be putting our people out of work with the result that their incomes are needlessly allowed to be reduced. At the same time, money will not, as formerly, be being created to pay wages to other persons who were once employed in the export trade and these, too, will have their buying-power reduced. All this is a thoroughly silly and unnecessary state of affairs due to a rotten financial system and to the retention in the modern world of out-of-date notions with regard to the proper relation of work to income.

Before Hitler came to power, our financiers used to keep on creating new money for loans to Germany, this money, of course, being spent in Britain and not in Germany, Germany receiving **British** goods.

When Hitler appeared these loans were soon stopped. Jewish financiers no doubt refused further loans in order to punish Hitler for persecuting the Jews, but non-Jewish financiers had a very different reason. They did not care two hoots about freedom and democracy although they often pretended to do so in order to get the support of kind-hearted people who were made angry by the severities of the Nazi régime. What worried them was that Hitler had seen through the financial racket and was determined not to tolerate it any longer. He realised that a country's money-supply need not be limited by the amount of gold in its Central Bank, nor need it be restricted to suit the interests of money-lenders. If a job required doing and men and materials were available, money could also be made available and, if necessary, created, and Hitler saw to it that it was! This horrified the money-creating money-lenders. If the German Government showed that it realised that the only limit which need exist to a country's money-supply was that set by its maximum output and import of desired goods and services, not only would other Axis countries imitate its financial policy, but before long these new ideas might spread throughout the entire world! What then would happen to the money-lenders' power? It would be undermined completely. Hitler and his revolutionary financial system must therefore be smashed, and smashed, if need be, by war!

The new German foreign trade policy was almost as objectionable to the financiers as the new money policy. Hitler was not in the least interested in the export trade as a means of earning dividends for financiers and other investors. He only valued it as a means of securing necessary imports—and in this he was quite right. He even went so far as to conclude barter trade agreements with foreign countries. Barter trade is quite a sensible arrange-

ment, but it does not please bankers and financiers at all. When two countries exchange goods direct, it cuts money out altogether and not only are there no dividends for investors, but banks get no commission on Bills of Exchange. In the normal conduct of foreign trade, banks arrange, by means of a device known as a "Bill of Exchange," that merchants selling goods to foreign customers shall receive payment, not in foreign money which would be of no use to them, but in the money of their own country; and for this service they charge a discount or commission fee which they get no chance of earning under a barter system.

By means of barter trade Germany was able to sweep the South American markets until 1936, by which time her export trade had doubled, and ours and that of the United States had declined because British and American financiers would not dream of allowing their own countries to imitate German financial and trade methods and so compete with Germany on fair and equal terms.

Between 1936 and 1937 Hitler's four year plan was well on the way to success, but then came an ultimatum from the financiers that Germany must return to the Gold Standard "as the only method which could so regulate international trade as to prevent war." In point of fact, it was an absolute lie that a return to the Gold Standard was either necessary or desirable and under these circumstances the veiled threat of war was all the more significant. We have already seen that a country's domestic money-supply should be regulated by one thing and one thing only—its maximum output and import of desired goods and services of every kind. There is obviously not the slightest connection between a country's maximum output and import of desired goods and services and the amount of gold obtained from the gold mines. Financiers, however, like to keep up the deception that gold is important because gold is a rare mineral and a money-supply related to gold will tend to be a short one. This is good for the money-lenders, though bad for the people generally, for, when money is scarce, more persons will be anxious to borrow and more may be compelled to pay high rates of interest. Many financiers, also, have shares in gold mines and these shares would be much less valuable if gold were obtained only for making ornaments.

The use of gold is almost as undesirable in connection with foreign trade as it is in connection with the regulation of a country's domestic money supply. Foreign trade should consist of an exchange of goods and if, during a given period, one country should send another a greater

value of goods than it receives back in return, the creditor country should obtain, not a payment in gold which, under the Gold Standard system, has various undesirable results which need not here be described; but a right to claim more goods from the debtor country to the value of the difference between what it has so far exported to the latter and what it has received from it.

Hitler still further offended the financiers by putting a stop to what is known as the "freedom of the exchanges." This nice-sounding phrase, so suggestive of liberty and democracy, is used to describe a financial practice which in reality is highly undesirable. It means, in simple English words, licence to private individuals to buy the money of one country with the money of another; to gamble in currencies; and to shift private fortunes from one country to another if the political situation seems to indicate that it is desirable to do so. This currency-speculating and shifting is extremely disturbing to foreign trade, as merchants can never be sure what price they will receive in the money of their own country for goods they have arranged to sell abroad. Hitler was perfectly right to put an end to the "freedom of exchanges," but a prominent official of a Canadian bank has actually been candid enough to declare that the war is being waged in order to restore it!

When trouble began on account of Hitler's new financial methods there was a great scurry in the League of Nations Committee on Raw Materials. This Committee had been sitting for seventeen years and had done nothing, but after the financiers had stirred them up, in three months they had produced a Report showing that there could be no access to raw materials until all countries had returned to a "sound" financial system—that is to say a monetary system which operated in the interests of money-lenders. This amounted to a declaration of economic war on Germany if she refused to abandon her new and sensible financial and foreign trade policy.

From this time onward every political outburst against Germany followed an economic defeat which she succeeded in inflicting on the supporters of the old financial system. The question of raw materials cropped up again at Munich and probably led to pressure being brought to bear on Mr. Chamberlain to announce the continuation of re-armament immediately on his return to this country. This most ill-timed declaration, made before Hitler had given any further provocation and before Mr. Chamberlain had done anything to implement his promise to settle all further problems peacefully by the method of negotiation, effectively destroyed all hopes of a continu-

ance of friendly relations with the German Government.

Some people may feel that there are convincing reasons, other than the economic one, to account for the six years' hate campaign conducted by various sections of the Finance-controlled British Press, but whether this be the case or not, the economic war can be traced from day to day and from year to year in the British White Papers.

Many people who are encouraged by the help America is giving us in the war fail to realise that the big American financiers are anxious to fight with other aims than the defence of liberty and democracy. In this connection the following quotations are of interest.

In December, 1940, the (U.S.) Investment Bankers' Association met at Hollywood and were addressed by Mr. Vergil Jordon, President of the National Industries Conference Board. Among the things he said were these:—

"America's purpose is to prevent the destruction of the Empire and if this should not be possible to take her (England's) place as the heir and residuary legatee or receiver for whatever economic and political assets of the Empire survive her defeat. . . . Even though, by our aid, England should emerge . . . without defeat, she will be so impoverished economically and crippled in prestige that it is impossibe that she will be able to resume her dominant position in world affairs . . . At best, England will become a junior partner in a new Anglo-Saxon imperialism, in which the economic resources and the military and naval strength of the United States will be the centre of gravity . . . In modern terms of economic power as well as political prestige, the sceptre passes to the United States. . . ."

Robert Laffan wrote in the Wall Street Journal of May, 1940:—"What the stock market probably needs to sustain it or improve it, taking a short or day-to-day view, is freedom from fear of any sudden change in the complexion of things abroad, a war active enough to stimulate the exports upon which present hopes are built, yet not decisive enough to indicate an early end to the war. And, of course, a war in which the position of the Allies is never quite jeopardised."

The New York correspondent of the "Times" in the issue of June 28th, 1941, gives the following candid description of the views of American financiers who expected America's entry into the war to prolong instead of shorten the struggle in Europe. "For while that would not be a development that anybody ought to wish for, it would, of course, make certain that industrial activity in this country would continue at its high level

for a long time to come and THAT THE MUCH-FEARED ECONOMIC READJUSTMENT IN THIS COUNTRY THAT MUST BE FACED AFTER THE ADVENT OF PEACE WOULD BE INDEFINITELY POSTPONED."

The "much-feared economic readjustment" is, of course, the reform of the monetary and foreign trade system, bringing prosperity to American citizens, but depriving American financiers of much of their power as money-lenders and money-creators.

WHAT CAN MONETARY AND FOREIGN TRADE REFORM DO FOR US AFTER THE WAR?

Monetary reform can enable us for the first time in the history of our country to develop our home resources to full capacity and sell all the desired goods we are able to produce, at a price fair to producers.

Foreign trade reform can enable us to import from abroad desired goods we cannot produce for ourselves, to the full value of any exports we can produce which are acceptable to foreign countries.

Monetary and foreign trade reform can enable us to provide work for the maximum number of people required to put our resources in raw materials to full use.

Monetary reform, in conjunction with an efficient rationing system continued as long as desirable, can give to every citizen of the country a fair and agreed share of the necessaries of life. The amount of that fair share will depend on the number of people in the country and on the amount of goods which can be produced and imported under a system which places no money hindrances in the way of home production and trade. Each person would be enabled to claim his full ration by being given enough money to buy it, whether he were employed or unemployed. There is good reason to believe that as time went on production would increase. This would mean that each citizen's share would increase and so would his money income.

Monetary reform would mean that all vice, crime, disease and mental suffering due to lack of money could be put an end to.

Monetary reform would mean that the excuse "There is no money" would never again be accepted as a reason for not doing something desirable for which labour and materials were available.

The Beveridge Plan has attracted the interest and support of more people than its real merits

deserve. At best it is but a poor makeshift. It does not get down to fundamentals, for it says nothing about adjusting the money-supply to the thing which money is needed to buy; nor does it recommend creating money not in the form of debt. Its insurance plans oblige people to forego the right of spending all their incomes now in order that they may have a reserve of money for hard times in the future. What sense is there in this economy of money? If there are enough goods on the market now to back and give value to a man's full wages or salary, why should he be prevented from using as much of his wages or salary as he desires, to buy them now? Why must he be compelled to restrict his purchases now in case he is old, or ill, or unemployed in the future? If he is old, or ill, or unemployed in the future and the country's total output and import of goods has not decreased in the future (and why should it?) why can he not **then** be given all the money he needs to support himself in comfort without having had to make unnecessary sacrifices beforehand? That is the difference between monetary reform sense and Beveridge nonsense for every economic scheme which keeps inside the old money system is bound, to a great extent, to be nonsense.

Bairnsfather's character of the last war, "Old Bill" advised his comrade to find "a better 'ole" to stay in, if he could. While it would be foolish to suggest that monetary and foreign trade reform are **all** we need to give us a decent post-war world, I can assure my readers with every confidence that, while they may find some other quite good 'oles, they will never find a better 'ole than the one these articles describe. Just one last word —of warning—in conclusion. The shorter the war the better the 'ole will be, for the longer the war drags on the more do we waste our precious store of raw materials at home and the more do we lose—perhaps for good—our export markets and with them the power to secure imports. Depleted raw material resources at home and fewer imports mean a smaller post-war ration of necessaries for each citizen even under the fairest system of distribution and with the wisest and fullest use of production assets.

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